Zi CORPORATION

ANNUAL
1996
REPORT

CORPORATE PROFILE

Zi Corporation specializes in the development and marketing of Chinese character-based language applications and Internet products and services. Based in Calgary, Canada, with offices in Hong Kong, Beijing and San Francisco, the Company has developed a unique Chinese character-based input system for computers and other electronic devices. Zi Input uses a stroke-based input system to enter characters from either the Traditional or Simplified Chinese character sets, an approach that significantly simplifies this task. The Company believes the input product helps to reduce language barriers that have contributed to the slow progress of information technology markets in China and other Asia Pacific countries compared to western markets. Zi Input and the applications and products that use it have the potential to become market leaders in Chinese character-based applications. Zi Corporation is a wholly-owned subsidiary of Multi-Corp Inc., a publicly traded company on The Toronto Stock Exchange ("MCU") and The Nasdaq Small Cap Market ("MCUAF").

ANNUAL GENERAL MEETING

The Annual and Special General Meeting of Shareholders of Multi-Corp Inc. will take place in Calgary at the Calgary Petroleum Club, Viking Room A & B on Thursday, June 19, 1997 at 2:00 p.m.

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FINANCIAL HIGHLIGHTS

($000) EXCEPT PER SHARE AMOUNTS)	1996	1995	1994
OPERATIONS			
Total revenue	1,684	578	72
Operating loss	9,787	4,629	2,066
Funds applied to operations	7,838	4,113	1,898
Net loss	20,752	8,746	3,347
Net loss per share	$ 0.86	$ 0.43	$ 0.18
FINANCIAL POSITION			
Total assets	14,954	14,083	11,277
Long-term debt	–		993
Total liabilities	7,370	6,285	5,745
Shareholders' equity	7,584	7,798	5,532
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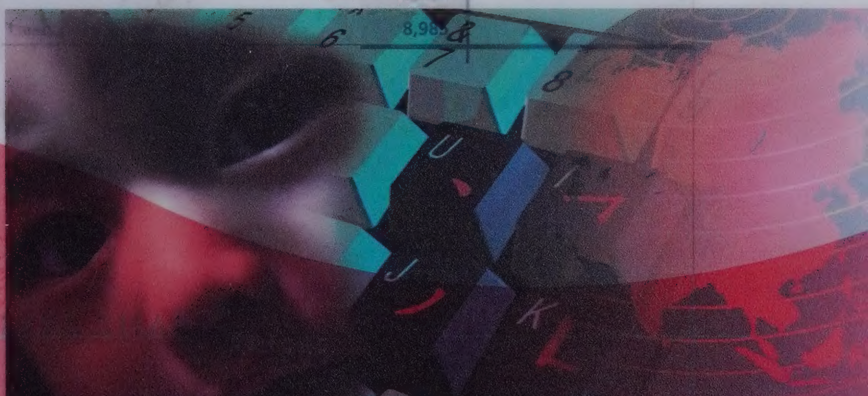

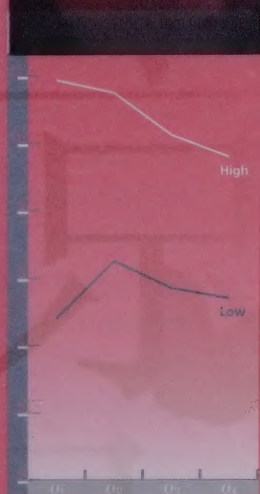

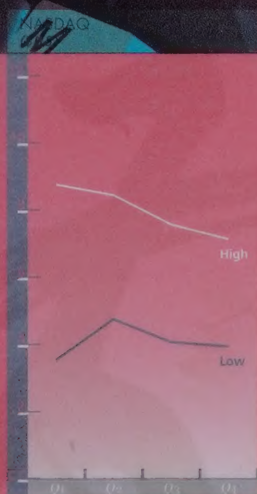

MULTI-CORP INC.'S COMMON SHARES ARE TRADED ON THE TORONTO STOCK EXCHANGE IN CANADA (SYMBOL MCU) AND THE NASDAQ SMALL CAP MARKET (SYMBOL MCUAF) IN THE UNITED STATES.

Zi CORPORATION

OUR NEW LOGO

The new Zi Corporation logo is a graphic representation of the corporate name superimposed on a Chinese character. The name "Zi" is the phonetic spelling of the sound which means "character" in Chinese. In our logo, "Zi" is used to represent Zi Input, the Chinese character input system that is at the core of Zi's product line.

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Total liabilities	**7,370**	6,285	5,745
Shareholders' equity	**7,584**	7,798	5,532
Cash position at end of year	**8,985**	2,097	1,796

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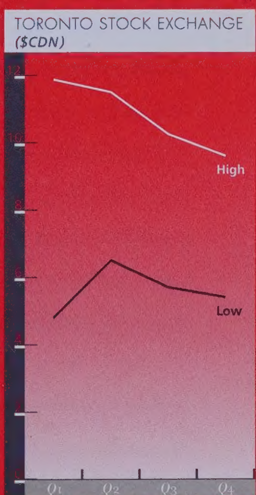
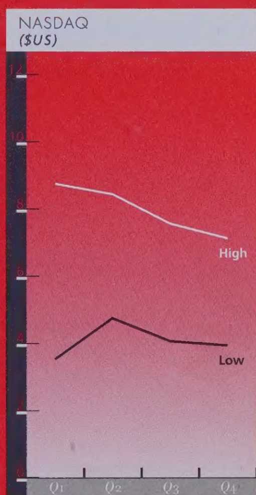
1996 SHARE PRICES





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CHAIRMAN'S MESSAGE

Our commitment to Zi is now stronger and more focused than ever.

To Our Shareholders:

Refocus. Reposition. One vision. These words capture the essence of our Company's activities for 1996. Last year at this time, we were a Company involved in two distinct businesses – Chinese character-based technologies for the Asia Pacific market and international telecommunication services. We saw little opportunity to leverage any synergies between the two distinct businesses. And, we saw that our strategic future rested with Zi Corporation. As a result, this year, we took steps to focus our energies, people and financial resources on Zi.

Our commitment to Zi is now stronger and more focused than ever. We have made commitments in the areas of research and development, linguistics, marketing and sales.

In the area of research and development, we have moved the core technology – Zi Input – forward by building applications software around this core. Zi Mail is just one example of our efforts. Zi Mail was awarded a "Best Buy" designation from *PC World Hong Kong* (March 1997) for Chinese e-mail because it "provides the best Chinese language support". It received praise from *PC World Hong Kong* after they compared Zi Mail

against products from Microsoft, Netscape and Alis Technologies. We are working on further leading Internet and non-Internet applications to achieve significant market share in the Asia Pacific region.

On the marketing and sales front, we opened sales offices in Beijing, China and expanded San Francisco and Hong Kong. We have staffed them strategically with senior sales professionals with numerous years of technology and major account selling experience. To increase the depth of our linguistic expertise, we have deployed a team of Chinese linguists who work with China's State Linguistics Commission to keep abreast of language evolution.

Our business opportunities in the Asia Pacific region have attracted new, key strategic partners – Hongkong Telecom, AST Computer, Compaq, NCS Pte. Ltd. in Singapore and Vanguard Information Group in Taiwan. They see the future as we see it – allowing Chinese people to use technology in their own language. We and our partners see some exciting opportunities ahead.

We continue to actively seek licensing of Zi technology to third-party manufacturers who will develop new electronic products for the Chinese market. Together, we believe that we can effect real change in the way Chinese people communicate.

As you can see, this year was indeed a year of refocusing and repositioning. And, we emerged with one single vision – Zi. A commitment to that vision has allowed us to accomplish what we have to date and has made our place in the world of technology a whole lot clearer.

In closing, I want to take this opportunity to thank all of our shareholders for their patience throughout the year. Without a doubt, it has been a challenging one for all of us, shareholders and management alike. I can assure you that this time in our young history has made all of us at your Company even more determined to work harder to deliver enhanced shareholder value in 1997 and beyond.

Michael E. Lobsinger
Chairman of the Board and
Chief Executive Officer

April 30, 1997

Here are some of the most commonly asked questions from our shareholders and other stakeholders as well as Zi Corporation answers.

China has lagged behind world norms in computer usage. How will Zi technology impact this marketplace?

Zi Corporation's core Zi Input technology has the potential to effect change in the Asia Pacific region and, in particular, China. Zi Input and the Internet suite of products that we are building simplify communication in Chinese character-based languages and reduce language barriers that have kept the Chinese information technology market from developing at the pace experienced in Western markets.

Our target market in China is the 100-300 million business users who not only require a means with which to use technology more effectively to communicate in their own language, but are also the population segment that can readily afford personal computers and software. A recent study found that about 300 million Chinese are able to afford a PC, and that this group is also predisposed to high technology. A simple-to-learn and easy-to-use input system, like Zi Input, combined with applications, has the potential to be a catalyst to stimulate growth in this untapped market.

What are the major market opportunities for Zi?

Today, what we have in front of us are opportunities in the Asia Pacific region in a number of areas including Internet applications and input of Chinese characters for both software and electronic hand-held devices.

The Internet is growing at an exponential rate in Asia Pacific. Our e-mail product, Zi Mail, is attractive to Chinese business users and casual users who want to communicate on the Internet in their own

language. In addition, Zi Mail promotes inter-Asian communication as it is capable of converting messages from Simplified Chinese to Traditional Chinese just with the click of a button. Zi Mail was given a four-star rating by *PC World Hong Kong* (March 1997) as the "Best Buy" for Chinese e-mail software.

Since the launch of Zi Mail, we have signed distribution agreements with Compaq, AST Computer, Hongkong Telecom and in excess of 20 Internet Service Providers in Asia and North America. Zi Mail is also making inroads into the educational sector. Stanford University's Association of Students and Scholars is distributing Zi Mail to its student body.

As far as Zi Input is concerned, we recently received the endorsement of one of the wealthiest provinces in China, Guangdong Province, whose Computer Application and Development Office highly recommends and encourages the use of Zi Input.

Zi Technology can be used in electronic devices other than personal computers. Our potential opportunities in this area include cellular phones, educational teaching software, electronic Chinese toys, pagers and portable digital assistants.

What do you believe will be the key success factors for your products?

Market penetration with products built specifically for the Chinese user. That is what it's all about. This guiding philosophy is critical in China, a country with virtually no information technology legacy.

What differentiates us from our competitors is that we have built products that are specifically designed with the Chinese user in mind and we have attempted to solve communication problems that are unique to this language group rather than force a North American technology to "fit" the Chinese market. At the core of our efforts is a highly experienced development team with numerous members having 10+ years of software development experience and a staff of Chinese linguists and translators.

We are in the process of developing distribution channels for selling Zi products and services in both Asia Pacific and to Chinese audiences worldwide. We believe that to achieve our market penetration goals, we require a broad scope of distribution channels relevant to our technologies, as well as key strategic information technology relationships in the Asia Pacific region.

What are your plans for extending the Zi product suite?

The majority of our current programming work is focused on the development and enhancement of the Zi Internet product suite including the development of additional products and support of multi-platform roll-out plans.

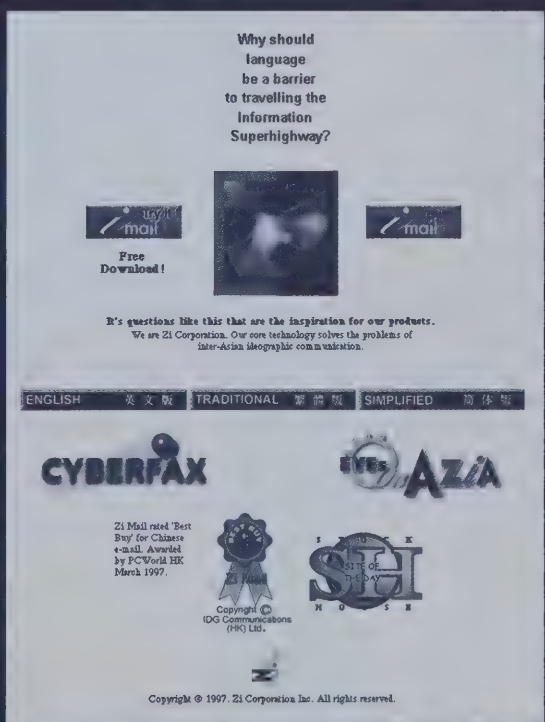
Consistent with achieving significant market share in the Asia Pacific region, Zi Corporation has an aggressive product development and marketing plan. Planned releases in 1997 include enhanced input products, Internet-intranet and office applications for PCs and NCs (network computers) and other platforms.

What are the risks associated with software piracy in the Asia Pacific market?

We all know that software piracy is a concern for any company doing business in this market. To address this risk, Zi Corporation attempts to prevent piracy of its Internet software products and those products that are not designed specifically for Internet use. For example, in the case of Zi Input, Zi Corporation uses copy-protect features and limits the number of installations for purchasers of Zi Input software. In this way, a user is unable to copy registered versions of Zi Input.

For secure distribution of software products over the Internet, we have developed our own registration and authentication process. Because of a unique registration feature, only users who have received a "key" from Zi Corporation can use a registered copy of Zi Mail.

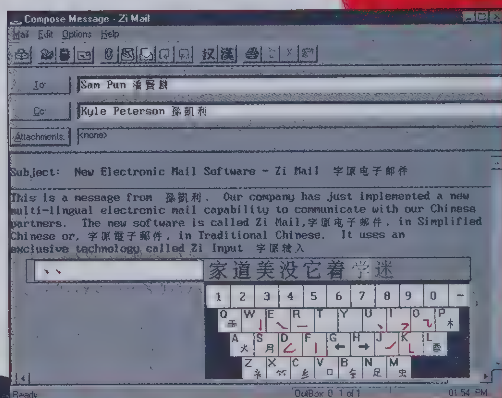
http://www.zicorp.com



Zi mail

CHINESE E-MAIL FOR THE INTERNET

See how easily Chinese characters are entered using Zi Mail's intuitive stroke-based input.



Note the mixture of English with both Traditional and Simplified Chinese.

CHOSEN AS "BEST BUY" FOR CHINESE E-MAIL BY *PC WORLD HONG KONG*

BECAUSE "IT PROVIDES THE BEST CHINESE LANGUAGE SUPPORT".

- MS WINDOWS PLATFORM INDEPENDENT, MULTI-LINGUAL E-MAIL SUPPORTING BOTH SIMPLIFIED AND TRADITIONAL CHINESE
- EASY, STROKE-BASED INPUT OF CHINESE CHARACTERS
- CONVERTS MESSAGES BETWEEN TRADITIONAL AND SIMPLIFIED CHINESE BEFORE SENDING OR AFTER RECEIPT

Zi Mail delivers

PC World Hong Kong (March 1997) selects Zi Mail as the best Chinese e-mail software on the market ahead of products from Microsoft, Netscape and Alis Technologies.

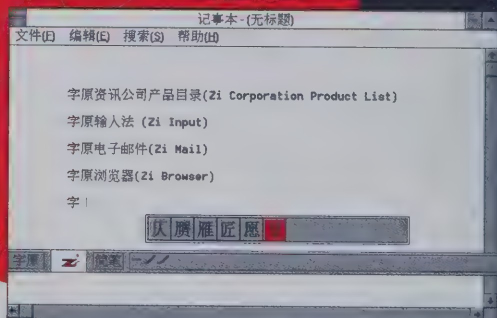
Zi Mail includes the Zi Input system for stroke-based input of Chinese characters. Using only a few keys on the computer keyboard, Zi Input allows users to type Chinese characters in the same manner they learned to write them. So novice users who know how to write Chinese, but don't know any Chinese input methods can use Zi Input to compose messages in Chinese within minutes.

To facilitate inter-Asian communication, Zi Mail includes the capability to convert messages between Simplified and Traditional Chinese characters by simply clicking a button.

Zinput

TYPE AS YOU WRITE STROKE BASED
INPUT OF CHINESE CHARACTERS

If you can read and write Chinese, you can type Chinese characters with Zi Input.



This screen shows the Zi Input stroke-based entry of characters in a popular Windows application.

APPLICATIONS USING ZI INPUT HAVE THE POTENTIAL TO BE MARKET LEADERS.

- EASY INPUT OF CHINESE CHARACTERS
- USES BASIC WRITING STROKES TAUGHT IN SCHOOL – NO ENGLISH PHONETICS OR MEMORIZATION OF CODES REQUIRED
- INTELLIGENT – USES CONTEXT, GRAMMAR AND IDIOMS TO DISPLAY CHARACTERS

Zi Input –

Simple to learn.

Easy to use.

Zi Input is a simple and easy-to-learn input system for Chinese character-based languages. It follows people's writing habits, can be used by any literate Chinese person and works on a wide range of MS Windows platforms. Based on linguistic research into Chinese character-based languages, it reinforces Chinese language and culture and supports the educational process.

Zi technology

CHINESE CHARACTER INPUT FOR ELECTRONIC DEVICES

- ZI INPUT EMBEDDED ON A PROGRAMMABLE COMPUTER CHIP FOR A WIDE RANGE OF PRODUCTS INCLUDING CONSUMER ELECTRONICS, EDUCATIONAL AND ENTERTAINMENT PRODUCTS
- ALLOWS FOR EASY, STROKE-BASED INPUT OF CHINESE CHARACTERS
- ANY LITERATE CHINESE PERSON CAN LEARN TO USE IT

UNIQUE MARKETING OPPORTUNITIES

Text messaging – Zi Technology lets users generate Chinese text. This means small devices supporting text messaging such as cellular telephones and two-way pagers are potential products with a ready market.

Pocket electronics – Pocket-size electronic organizers, dictionaries and other devices represent another category of potential consumer products.

Educational tools – Zi Technology can play a role in the introduction of educational appliances requiring character-based input such as personal computers.

FUTURE PRODUCTS

Zi Corporation has an aggressive product development and marketing plan. Planned releases in 1997 include enhanced input products, Internet-intranet and office applications for PCs and NCs (network computers) and other platforms.

Operations Review

Development

In 1996, the Company, through acquisition and recruitment, supplemented the existing software development team with experienced Internet development personnel and other senior software developers, with the mandate to focus on development of Zi Input and a suite of Internet products aimed at meeting the needs of Chinese-speaking people. During the year, two significant development projects were completed.

Zi Mail was developed and introduced in late 1996. Zi Mail is electronic mail software that enables users to send and receive e-mail in both Traditional and Simplified Chinese concurrently with English. The product was commercially available in January 1997.

In late 1996, a prototype for Zi Technology was developed and presented in Beijing. The prototype contains programmable semi-conductor technology embedded with Zi Input and presents "proof of concept" for potential future embedding of Zi Input in hand-held electronic devices •.

Special Note Regarding Forward Looking Statements:

Certain statements in this "Management's Discussion and Analysis – Operations Review" and "Management Discussion and Analysis – Financial Review" constitute "forward-looking statements" within the meaning of the Private Securities Legislation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry or market results, expressed or implied, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such forward-looking statements herein are denoted as follows "•". The Management's Discussion and Analysis is to be read in conjunction with the Company's audited financial statements for the years ended December 31, 1996, 1995 and 1994, and the Company's Form 20-F for the year ended December 31, 1996 filed with the U.S. Securities and Exchange Commission.

Marketing and Sales Highlights

In 1996, the Company renamed its wholly-owned Ziran Subsidiaries and its Ziran product line as Zi Corporation and Zi product line respectively. Zi Corporation and the Zi product line reflects the Company's overall strategic direction as a software products company specializing in Chinese character-based language technologies and applications for its Asian target markets. The name "Zi" is the phonetic spelling of the sound which means "character" and has the same meaning in Chinese, Japanese and Korean. The Zi product line currently consists of Zi Mail (an English and Chinese character-based e-mail product) and Zi Input (a Chinese character input system, formerly Ziran Input System).

During the year, the Company continued to increase its marketing and sales force in Hong Kong, Calgary and San Francisco and opened a new office in Beijing. The Company staffed these offices with senior sales professionals to conduct direct marketing with corporate, education and government organizations.

On June 1, 1996 the Company purchased Solutions Source Inc., an Internet software development and consulting company based in Calgary, Alberta. Solutions Source brings to the Company experience in providing Canadian and international companies with business applications for the Internet. The integration of Solutions Source's software development team with the Company's existing development group accelerated the development process for the Asian Internet products. The addition of Solutions Source also added consulting expertise in the North American Internet market.

As Internet Service Providers (ISPs) serve the ideal demographics for the Company's Internet product, they can be an efficient distribution channel for reaching the individual user •. In late 1996, the Company commenced development of its electronic software distribution channels for the Company and ISPs to distribute Zi Mail.

The Company continued to have discussions with various original equipment manufacturers with regard to integrating Zi Technology with electronic product applications ranging from electronic labelers, electronic typewriters and telecommunication devices, to bundling the Zi products with personal computers and personal computer operating systems •.

In March 1996, the Company entered into a Software Integration Agreement with Cinecapital Inc. of Toronto and Comadex Industries Ltd. of Vancouver (collectively the "Supply Principals").

The Supply Principals have a contract to procure 450,000 multi-media personal computers for distribution into the school system in the People's Republic of China ("PRC") which may include the Company's software products. This contract is subject to PRC State Education Commission and Tengtu International Corp. ("Tengtu") final approvals of hardware and software to be procured and satisfactory financing terms. As at April 30, 1997, financing has not been arranged. In addition, the Company's software has not been evaluated by the State Education Commission or Tengtu specific for its use with respect to the terms of this agreement. The Company cannot predict when or if financing will be arranged, when or if its software will be approved and when or if sales may commence • .

On May 28, 1996, the Company announced that it had entered into a strategic business alliance with the Asian American Association ("AAA"). Early in 1997 the AAA commenced marketing efforts with respect to Zi Mail.

Also in May, the Company signed a campus-wide educational agreement with Hong Kong Polytechnic University ("HKPU") for the Zi Input System. The educational agreement includes hot-line support and training for HKPU's Information Technology staff.

In September 1996, the Company and Tengtu signed an agreement in which Tengtu is to recommend and market Zi products and services to the public and private sectors in the People's Republic of China. Tengtu contracted to purchase US$500,000 of Zi products for use in their marketing efforts.

Outlook

The Company has continued to invest significantly in software development with a focus on product roll out for its technology and a suite of Internet products aimed at the needs of Chinese speaking people. Planned releases in 1997 include an enhanced input product, Zi Active X-plug-in, Zi Input and Zi Mail for a Macintosh platform, Zi plug-ins for Netscape's Navigator and Microsoft's Explorer, Zi Server software and integration of Zi Newsreader and Zi Browser into Zi Mail • .

The Company's dealings with officials of the Chinese government to date have provided management with positive feedback. The government is signalling a desire to do business with the rest of the world and is looking for technologies that can support such efforts. However, the Government of China also has a policy to support its local software industry. The Company has a local presence in China, with its Beijing office. The majority of the Company's staff are Chinese, the Company has built its products specifically for the Asian market, the Company tries to be respectful of the Chinese culture, and believes it is in a position to assist in the evolution of technology in China •. This hopefully positions the Company to be viewed as supportive of the local software industry in China •. Although the Company believes these factors position it positively with respect to political risk, there can be no assurances that governmental policies will not significantly disadvantage the Company's business •.

The Company is in the process of developing distribution channels for selling Zi products and services in both the Asia Pacific region and to Asian audiences worldwide. The Company believes that the keys to success for its distribution strategy should include market penetration, a broad scope of distribution channels relevant to its products and technologies and key strategic IT partners in the Asia Pacific Region •.

In March 1997, the Company signed a supply and distribution agreement with Fang Ah Company of China. Fang Ah is to purchase and distribute in China, 150,000 units of Zi Input under the trade name "101 Chinese Input System" •. The supply and distribution agreement follows the endorsement by Guangdong Province's Computer Application & Development Leading Group Office. The Office recommends and encourages the use of 101 Chinese Input System (Zi Input) by the Province's government departments, schools and newspaper media •.

In April 1997, the Company announced that two divisions of Hongkong Telecom ("HKT") are to distribute the Company's Zi Mail product.

- *HKT IMS Internet Business Solutions, is to roll-out their Internet Starter Pack for small to medium size enterprises in Hong Kong which will include Zi Mail, and have prepaid for 2,000 Zi Mail licenses. HKT has advised the Company that they intend to target 80,000 small to medium enterprises in the next twelve months •.*
- *HKT IMS Netvigator, is to distribute Zi Mail through their Internet website •.*

Also early in 1997, the Company has entered into over 20 agreements with ISPs in both the Asia Pacific Region and in North America. This is currently the Company's main distribution channel for the Zi Mail product •.

The Company is actively seeking licensing for Zi Technology to third-party manufacturers who will develop their electronic products for the Chinese market and continues to look for other software bundling opportunities •.

In April 1997, the Company announced that Compaq Computer Corporation of Hong Kong ("Compaq") and AST Computer ("AST") are to distribute Zi Mail in Hong Kong in collaboration with the Company. The Company is working with Compaq and AST to market and distribute Zi Mail with their desktop and notebook computers sold in Hong Kong •.

In March 1997, the Company sold its telecommunication business. The Company was no longer prepared to commit the financial resources required to continue to grow this business and did not consider it to be strategic to the Company's future.

This discussion and analysis of financial condition and results of operations for the three years ended December 31, 1996, 1995 and 1994 should be read in conjunction with the consolidated financial statements and related notes in this Annual Report. The effects on net loss arising from differences in generally accepted accounting principles between Canada and United States are outlined in Note 14 to the consolidated financial statements.

Results of Operations

For the year ended December 31, 1996, the loss from continuing operations is $9.5 million compared with an operating loss of $4.7 million in 1995 and $1.8 million in 1994. The Company's telecommunication operations were sold in March, 1997 (see "Discontinued Operations"). Prior year comparative figures have been restated to reflect this disposition.

In 1996, the Company increased its focus and investment in software operations. The Company operated at a loss throughout the year as marketing, personnel and software product development costs increased. The Company added personnel and opened new offices. The Company also acquired a consulting and software development company which added personnel costs and consulting revenue. During 1996, the Company reduced its translation operations.

In 1995, the Company continued to invest in the start-up of its software and translation operations. The Company operated at a loss throughout the year as it added personnel, leased facilities, incurred advertising and promotion costs and invested in software research and development.

Software (March 1994) and translation (November 1994) offices were opened in Hong Kong. Significant costs were incurred in creating market awareness of the Zi Input System and translation services, developing a marketing and sales capability and establishing operations.

Operations Revenue

Operations Revenue by type and geographic segment is as follows:

		Translation	Software	Consulting	Total
1996	North America	$ 12,543	$ 5,714	$ 273,541	$ 291,798
	Asia Pacific	324,820	1,067,809	–	1,392,629
	Total	$ 337,363	$ 1,073,523	$ 273,541	$ 1,684,427
1995	North America	$ 9,531	$ 62,160	$ –	$ 71,691
	Asia Pacific	286,158	220,455	–	506,613
	Total	$ 295,689	$ 282,615	$ –	$ 578,304
1994	North America	$ –	$ 12,746	$ –	$ 12,746
	Asia Pacific	2,195	57,223	–	59,418
	Total	$ 2,195	$ 69,969	$ –	$ 72,164

Revenues increased 190% in 1996 compared to 1995 as the Company increased software product sales, including US$500,000 related to product to be supplied to Tengtu International Corp, increased translation services revenue in Hong Kong and consulting services revenue in North America as a result of acquisition of Solutions Source Inc.

Revenues increased 700% in 1995 compared to 1994 as the Company increased translation services in Hong Kong and North America and released for sale its software product, Zi Input System for Windows in July, 1995.

Revenues in 1994 were not significant as sales commenced late in the year.

Operating Costs and Expenses

1996 Operating Costs

Total operating costs of $8.0 million increased 162% from $3.0 million in 1995. These costs increased significantly as the Company expanded its research and development, marketing and customer support operations in Hong Kong, San Francisco and Calgary, and commenced marketing and sales operations in Beijing. The primary cost increases in 1996 are as follows:

- *Approximately 38 people were added to operations during the year which resulted in a significant increase in personnel related costs.*
- *Approximately $1.0 million was invested in research and development for Zi Input Technology, which consisted primarily of personnel related costs.*
- *Facility rental costs increased with the addition of a Beijing office, a second Calgary office through the acquisition of Solutions Source, and the expansion of the San Francisco and Hong Kong offices.*
- *Travel costs and advertising and promotion costs increased significantly due to the increased emphasis on marketing of the Zi Internet suite of products.*
- *Increased technology licensing costs.*

1995 Operating Costs

Operating costs of $3.0 million increased significantly compared to $0.4 million in 1994 as the Company expanded its Hong Kong operations and established translation services, research and development, and marketing and customer support in North America. The primary cost increases in 1995 are as follows:

- *Approximately 33 people were added to operations during the year which resulted in a significant increase in personnel related costs.*
- *Approximately $450,000 was invested in research and development for the Zi Input technology, which consisted primarily of personnel related costs.*
- *Facility rental costs increased with the addition of the Calgary and San Francisco offices and a complete year of rental for the Company's Hong Kong offices which opened in 1994.*
- *The Company experienced a significant increase in its technology licensing costs and in marketing and customer support costs for both translation services and the Zi Input system.*

General and Administrative Costs:

General and Administrative costs of $1.9 million increased 16% over costs of $1.6 million in 1995. Increased personnel costs, including a complete year of personnel added in 1995, and higher professional fees and shareholder reporting costs were the primary reasons for the cost increase.

General and Administrative costs increased 3% in 1995 compared to 1994. The addition of administrative personnel at the Calgary Corporate office resulted in additional personnel related costs. The Company also experienced increased professional fees as well as increased facilities costs as it incurred a complete year of rental costs on its Corporate head office established in late 1994.

Depreciation and Amortization

1996 depreciation and amortization expense of $1.6 million increased 193% compared to $0.6 million in 1995. Included in 1996 is increased depreciation expense resulting from capital asset additions during the year, amortization of $0.8 million relating to capitalized technology license costs as the Company decreased the estimated useful life of such licenses, and $0.4 million write-off of goodwill related to the acquisition of Solutions Source, as it is estimated that the potential net future cash flows from this business do not support the goodwill net carrying value at year-end.

1995 depreciation and amortization expense increased 209% compared to 1994. Included in 1995 expenses is $318,405 of previously deferred operation start-up costs, and increased depreciation expense resulting from capital asset additions during the year.

Interest and Other Income

Interest and other income in 1996 of $338,655 increased compared to $108,865 in the prior year, due to interest income earned from the increased funds available from investment proceeds received on issuance of common shares.

Interest and other income in 1995 increased compared to the prior year due to revenue from subleasing a portion of the Company's Calgary office space.

Interest Expense

Interest expense of $11,600 in 1996 decreased compared to $146,261 in the prior year due to conversion of interest bearing convertible notes and no shareholders loans outstanding in the year. In the first half of 1995, $1.5 million of convertible notes were outstanding compared to

$350,000 for the first half of 1996. In addition, in 1995 $0.7 million of shareholder loans were outstanding for approximately six months.

Interest expense of $146,261 in 1995 increased compared to 1994 due to convertible notes, as a certain portion of the convertible notes issued in May 1994 were outstanding for the full year, and additional interest expense related to shareholder loans and license fees.

Income Tax Recovery

As an international company subject to income tax rates in different countries, the Company's consolidated effective tax rate is the result of a blend of pre-tax profits and losses in different tax jurisdictions. Fluctuations in the tax rate occur as the blend changes and prior years' tax losses are able to be used. In 1996, 1995 and 1994, the Company realized losses for tax purposes, the benefit of which has partially been reflected in these financial statements. The Company has tax loss carry forwards of approximately $16.0 million which can be applied against future years' taxable income •.

Profits earned by the Company's foreign subsidiaries are subject to the Canadian foreign affiliate rules. For Canadian companies there is no additional Canadian income tax on repatriated profits from active business operations in countries with which Canada has a tax treaty. In contrast, US companies are taxed in the US on all repatriated active business profits and are only allowed a credit for taxes paid in foreign jurisdictions •.

Discontinued Telecommunication Operations

Subsequent to year-end, the Company disposed of its telecommunication operations as it sold all of the shares of its wholly-owned subsidiary Miami International Gateway, Inc., ("MIG") to a private Florida-based telecommunication company (the "Purchaser") pursuant to a Sale and Purchase Agreement dated March 7, 1997. This business was no longer considered strategic to the Company's future.

The Purchaser acquired all of the outstanding shares of MIG for consideration of US$1.5 million, assumption of all assets and liabilities and contingent cash consideration of US$1.0 million. The US$1.5 million is to be paid pursuant to a four (4) year seven percent (7.0%) per annum Promissory Note. The Purchaser may discharge its obligations under the Promissory Note by paying US$150,000 within ninety (90) days or by paying US$200,000 within 180 days, or by paying US$250,000 within 365 days. There is no assurance to the Company that the

Purchaser will be able to pay the US$1.5 million cash portion of the purchase price, and there is also no assurance that any monies will be received under the provision for contingent cash consideration of US$1.0 million •. The Company will account for consideration only as cash is received. The contingent consideration of US$1.0 million is payable on March 7, 1999, if the telecommunication business acquired by the Purchaser achieves cumulative gross revenues of US$24.0 million for the 18-month period March 7, 1997 through September 7, 1998.

The net loss in 1996 from the disposal of the telecommunication operations was $2,927,631 (net of nil tax) which includes the loss from operations for the period January 1, 1997 to March 7, 1997 of $1,832,303. The net loss from discontinued telecommunication operations for 1996 is $8,495,451. The 1995 and 1994 discontinued telecommunication operations reflect the net loss from this former business.

Most of the revenues earned by the Company up to now have been from the telecommunication business, though the telecommunication business has never been operated profitably. The sale of the telecommunication business is likely to result, for the short term, in a significant reduction in revenues to the Company •. In addition, there could be contingent liabilities as the Company has been named in a lawsuit with respect to the disposition of MIG and there is no assurance that the Company may not be named in additional legal actions arising from the operations or sale of the telecommunication business •. The Company's Balance Sheet will be materially impacted as a result of the disposition. As at December 31, 1996, assets relating to discontinued telecommunication operations were $3.7 million and liabilities relating to discontinued telecommunication operations were $5.0 million.

Discontinued Rental Operations

In 1994 the Company disposed of the rental assets and ceased operations of United Industrial Equipment Rentals Ltd., a wholly-owned subsidiary, as this business was no longer considered strategic to the Company's future. The 1994 discontinued rental operations reflect the net profit and loss from this former business. In 1996, proceeds of $500,000 were received on disposal of net assets (land and buildings), and a gain of $130,635 was realized. In 1995, the Company incurred a net loss of $170,842 primarily due to costs incurred on the final liquidation of rental equipment and related administration.

Financial Condition and Liquidity

Cash Flow From Operations

During 1996, the Company had a negative cash flow from operations of $11.8 million compared to a negative cash flow of $7.2 million and $1.8 million in 1995 and 1994 respectively.

1996 compared to 1995

The change during 1996 was primarily due to:

- *$8.0 million in funds applied to operating costs.*
- *$1.9 million of expenditures for administration.*
- *A net cash outflow of $0.6 million due to an increase in non-cash working capital.*
- *Cash outflows for discontinued telecommunication operations of $3.3 million and discontinued rental operations of $18,368.*

1995 compared to 1994

The change during 1995 was primarily due to:

- *$3.0 million in funds applied to operating costs.*
- *$1.6 million of expenditures for administration.*
- *A net cash outflow of $13,165 due to an increase in non-cash working capital.*
- *Cash outflows for discontinued telecommunication operations of $3.0 million and discontinued rental operations of $30,355.*

Financing Activities

Cash was received or used by the Company for financing activities during 1996 and 1995 as follows:

1996

- *Net cash inflows of $20.2 million from issuance of common shares of the Company pursuant to private placements and exercise of stock options and common share purchase warrants.*

1995

- *Net cash inflows of $10.2 million from issuance of common shares of the Company pursuant to private placements and exercise of stock options and common share purchase warrants.*
- *Cash outflows for repayment of convertible notes of $0.3 million, long-term debt related to discontinued operations of $1.0 million and shareholder loans of $0.7 million.*

Investing Activities

Cash has been used or was received by the Company for investing activities during 1996 and 1995 as follows:

1996

- *The net acquisition cost of Solutions Source was $165,420. This is comprised of a cash payment of two dollars, cash acquired of $21,248 and*

contingent consideration of $186,666 which is unpaid and included in accrued liabilities at year-end.

- *Cash outflows to purchase capital assets of $0.8 million to meet expansion and on going requirements. Cash outflows of $31,132 related to payments on capital lease obligations.*
- *Cash outflows of $1.0 million for discontinued telecommunication operations relating to capital asset additions and customer base acquisitions.*
- *Cash inflows of discontinued rental operations of $0.5 million relating to the sale of land and buildings.*

1995

- *Cash outflows to purchase capital assets totaling $0.2 million to meet expansion and ongoing requirements.*
- *Cash outflows of discontinued telecommunication operations of $0.7 million for customer accounts acquisitions and capital asset additions.*
- *Cash inflows of discontinued rental operations of $0.2 million related to the sale of land and building.*

Cash Requirements Outlook

The Company has had negative cash flow from operations for each of the last three years. The Company's cash requirements over this period have been met through proceeds from issuance of common shares from private placements and exercise of common share purchase warrants and stock options, on the issuance of convertible notes and long-term debt and the disposal of capital assets of discontinued rental operations.

The Company's net cash position at the end of 1996 is $9.0 million. Until revenue from operations increases, cash flow is expected to be negative •.

The Company believes that cash requirements for 1997 will be funded partially through the exercise of outstanding common share purchase warrants which total $9.1 million at December 31, 1996 •. The exercise of these warrants is dependent upon the market price of the common shares exceeding the exercise purchase price. At April 30, 1997, $1.5 million of potential cash inflow related to these warrants is uncertain as the market price of the common shares is below the exercise price •. The balance of $7.6 million will not be a source of funding for the Company as the warrants underlying this amount expired unexercised on April 26, 1997.

The Company also believes that financing can be obtained through additional common share issuance's pursuant to primary public offerings or private placements •.

The Company has license fees payable of $0.7 million at December 31, 1996 and net liabilities relating to discontinued telecommunication operations of $1.4 million. These are to be repaid from cash on hand.

The Company anticipates capital expenditures in 1997 of approximately $0.5 million related to computer equipment and facilities leasehold improvements. These capital expenditures are to be funded from cash on hand and the cash inflows discussed above •.

Impact of Inflation and Changing Prices

Inflation is not considered by management to be a major factor affecting continuing operations.

Foreign Currency

The foreign operations of the Company are translated into Canadian dollars for financial statement presentation. Consequently, movements in exchange rates may have a significant impact on financial results •.

In 1996 and 1995, all of the Company's revenues were from non-Canadian denominated currency with revenue denominated primarily in Hong Kong and United States dollars.

The Company's expenses are predominately denominated in United States, Hong Kong and Canadian dollars.

Based on the 1996 distribution of revenues and cash flows, a one cent change in the exchange rate between the Canadian and the US dollar or Hong Kong dollar, is estimated to affect the Company's financial results as follows •:

(THOUSANDS OF CANADIAN DOLLARS)	Revenue	Cash Flow
US Dollar	$ 5	$ 5
Hong Kong Dollar	$ 42	$ 288

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the information and representations contained in these financial statements and other sections of this Annual Report. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. In preparing these consolidated financial statements, management selects appropriate accounting policies and uses its judgment and best estimates to report events and transactions as they occur. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Financial data included throughout this Annual Report is prepared on a basis consistent with that of the consolidated financial statements.

To assist management in discharging these responsibilities, the Company maintains a system of internal controls which are designed to provide reasonable assurance that its assets are safeguarded; that transactions are executed in accordance with management's authorization; and that the financial records form a reliable base for the preparation of accurate and timely financial information.

The external auditors conduct an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards in order to express their opinion on these financial statements. Those standards require that the external auditors plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee. This Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the consolidated financial statements before they are presented to the Board of Directors for approval.

Michael E. Lobsinger
Chairman &
Chief Executive Officer

Nairn L. Nerland
President &
Chief Operating Officer,
Zi Corporation

March 14, 1997

AUDITORS' REPORT

To the Shareholders of Multi-Corp Inc.:

We have audited the consolidated balance sheets of Multi-Corp Inc. as at December 31, 1996, 1995 and 1994 and the consolidated statements of loss and deficit and changes in cash position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts of disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996, 1995 and 1994 and the results of its operations and the changes in its cash position for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants
Calgary, Alberta

March 14, 1997

AS AT DECEMBER 31	1996	1995	1994
ASSETS			
Current Assets			
Cash	**$ 8,985,338**	$ 2,096,983	$ 946,141
Cash held in trust	**–**	–	850,000
Accounts receivable	**1,413,028**	3,314,675	2,188,488
Prepaid expenses	**61,105**	43,302	69,010
Assets relating to discontinued telecommunication operations *(Note 9)*	**3,666,726**	–	–
Capital assets held for sale *(Note 9)*	**–**	349,298	–
	14,126,197	5,804,258	4,053,639
Capital assets *(Note 3)*	**827,933**	1,534,967	1,533,534
Intangible assets *(Note 4)*	**–**	6,743,790	5,689,353
	$ 14,954,130	$ 14,083,015	$11,276,526
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	**$ 1,574,435**	$ 2,714,650	$ 2,150,658
License fees payable *(Note 11)*	**717,052**	375,200	–
Current portion of capital lease obligation *(Note 3)*	**26,252**	55,715	–
Convertible notes payable *(Note 5)*	**–**	350,000	445,000
Liabilities relating to discontinued telecommunication operations *(Note 9)*	**5,041,698**	–	–
Current portion of customer base acquisition costs payable *(Note 2)*	**–**	1,586,297	–
Current portion of long-term debt relating to discontinued rental operations *(Notes 6 & 9)*	**–**	–	991,091
	7,359,437	5,081,862	3,586,749
Capital lease obligation *(Note 3)*	**11,115**	248,099	–
Customer base acquisition costs payable *(Note 2)*	**–**	954,800	–
License fees payable *(Note 11)*	**–**	–	280,361
Shareholder loans *(Note 10)*	**–**	–	720,229
Convertible notes payable *(Note 5)*	**–**	–	1,055,000
Deferred income taxes	**–**	-	102,000
	7,370,552	6,284,761	5,744,339
SHAREHOLDERS' EQUITY			
Share capital *(Note 7)*	**40,933,033**	20,395,597	9,383,953
Deficit	**(33,349,455)**	(12,597,343)	(3,851,766)
	7,583,578	7,798,254	5,532,187
	$ 14,954,130	$ 14,083,015	$11,276,526

Approved by the Board:

Michael E. Lobsinger, Director

Derrick R. Armstrong, Director

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

YEAR ENDED DECEMBER 31	1996	1995	1994
REVENUE	**$ 1,684,427**	$ 578,304	$ 72,164
OPERATING COSTS AND EXPENSES			
Operating costs	**7,970,228**	3,037,179	384,376
General and administrative	**1,879,225**	1,617,206	1,575,429
Depreciation and amortization	**1,621,694**	553,217	178,730
	11,471,147	5,207,602	2,138,535
Operating loss from continuing operations before undernoted	**(9,786,720)**	(4,629,298)	(2,066,371)
Interest and other income	**338,655**	108,865	93,560
Interest expense	**(11,600)**	(146,261)	(103,636)
Loss before discontinued operations and income taxes	**(9,459,665)**	(4,666,694)	(2,076,447)
Income tax recovery *(Note 8)*	**–**	–	257,205
Loss before discontinued operations	**(9,459,665)**	(4,666,694)	(1,819,242)
Discontinued telecommunication operations *(Note 9)*	**(11,423,082)**	(3,908,041)	(1,766,696)
Discontinued rental operations *(Note 9)*	**130,635**	(170,842)	238,766
NET LOSS	**(20,752,112)**	(8,745,577)	(3,347,172)
Deficit, beginning of year	**(12,597,343)**	(3,851,766)	(495,594)
Dividends	**–**	–	(9,000)
DEFICIT, end of year	**$ (33,349,455)**	$ (12,597,343)	$ (3,851,766)
Loss per share before discontinued operations	**$ (0.392)**	$ (0.233)	$ (0.100)
Loss per share	**$ (0.859)**	$ (0.434)	$ (0.184)

CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION

YEAR ENDED DECEMBER 31	1996	1995	1994
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:			
Operating Activities			
Loss before discontinued operations	**$ (9,459,665)**	$ (4,666,694)	$ (1,819,242)
Add (deduct) items not affecting cash:			
Depreciation and amortization	**1,621,694**	553,217	178,730
Income tax recovery	**–**	–	(257,205)
Funds applied to operations before discontinued operations	**(7,837,971)**	(4,113,477)	(1,897,717)
(Increase) decrease in non-cash working capital excluding discontinued operations	**(623,855)**	(13,165)	290,235
Cash flow applied to operations before discontinued operations	**(8,461,826)**	(4,126,642)	(1,607,482)
Cash flow applied to discontinued telecommunication operations	**(3,318,489)**	(2,999,456)	(148,386)
Cash flow applied to discontinued rental operations	**(18,368)**	(30,355)	(61,788)
	(11,798,683)	(7,156,453)	(1,817,656)
Financing Activities			
Proceeds from issuance of common shares	**20,511,454**	10,409,144	5,960,065
Financing fees	**(324,018)**	(200,000)	(4,831)
Cancellation of shares issued on acquisition of subsidiary *(Note 2)*	**–**	–	(1,000,000)
Issuance of common shares on note conversion	**350,000**	802,500	–
Proceeds from (repayment and conversion of) issuance of convertible notes	**(350,000)**	(1,150,000)	1,500,000
Repayment of long-term debt related to discontinued rental operations	**–**	(991,091)	(463,671)
Proceeds from (repayment of) shareholder loans	**–**	(720,229)	720,229
Dividend paid on preferred shares	**–**	–	(9,000)
	20,187,436	8,150,324	6,702,792
Investing Activities			
Purchase of capital assets	**(782,859)**	(174,557)	(319,235)
Payment of capital lease obligation related to capital assets	**(31,132)**	–	–
Acquisition of subsidiary net of cash acquired	**(165,420)**	–	–
Pre-operating expenses	**–**	–	(424,420)
Cash flow applied to discontinued telecommunication operations	**(1,020,987)**	(728,529)	(5,280,586)
Cash flow from discontinued rental operations	**500,000**	210,057	2,447,325
	(1,500,398)	(693,029)	(3,576,916)
Net Cash Inflow	**6,888,355**	300,842	1,308,220
Cash and cash held in trust, beginning of year	**2,096,983**	1,796,141	487,921
Cash and cash held in trust, end of year	**$ 8,985,338**	$ 2,096,983	$ 1,796,141

FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements are prepared using the historical cost basis in accordance with accounting principles generally accepted in Canada, which conform in all material respects with those in the United States, except as disclosed in Note 14.

Principle of Consolidation

These consolidated financial statements include the accounts of Multi-Corp Inc. (the "Company") and its wholly-owned subsidiaries. All material intercompany transactions have been eliminated.

Foreign Currency Translation

The accounts of the Company's integrated operations in foreign subsidiaries are translated into Canadian dollars using the temporal method whereby monetary items are translated at the rate of exchange in effect at the balance sheet date and non-monetary items are translated at applicable historical rates. Revenue and expense items are translated at the exchange rate in effect when each of the items is recognized. Depreciation and amortization are translated at the exchange rate used for those assets giving rise to the depreciation or amortization.

Measurement Uncertainty

The amounts recorded for allowance for doubtful accounts and accounts receivable write-offs, amortization period of intangible assets, estimated useful life of capital assets, provisions for contingent liabilities and revenue for translation and consulting services using the percentage of completion method are based on management's best estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in estimates in future periods could be significant.

Capital Assets

The Company records capital assets at cost and provides for depreciation using the declining-balance method at the following annual rates:

Rental fleet equipment	10% to 35%
Rental accessories and parts	50%
Office and computer equipment	30%
Shop and automotive equipment	30%
Telecommunication equipment	20%
Buildings	10%

Leasehold improvements are recorded at cost and amortized over the remaining term of the lease.

Capital assets held for sale are recorded at the lower of cost or net realizable value.

The net cost of assets retired or otherwise disposed of and the related accumulated allowance for depreciation are eliminated from the accounts in the year of disposal and the resultant gain or loss is included in income at that time.

Intangible Assets

Costs incurred in the pre-operating phase of the Company's Chinese character-based languages operations were capitalized. The pre-operating phase has been determined to have ended September 30, 1994.

The Company records intangible assets at cost and provides for amortization using the straight-line method over the following number of years:

Customer accounts	5 years
Goodwill	5 years
License agreements	3 years
Pre-operating costs	1 year

The Company periodically reviews the carrying value of its intangible assets wherever events or changes in circumstances indicate that the carrying value may not be recoverable. To the extent the estimated future cash inflows from such assets less estimated future cash outflows is less than the carrying amount, an impairment loss is recognized.

Effective January 1, 1994, the Company changed the estimated length of time that future benefits will be obtainable from the purchased customer accounts. Accordingly, the amortization period changed from ten to five years. Effective January 1, 1996, the Company changed the estimated length of time that future benefits will be obtainable from the use of the license agreements. Accordingly, the period of amortization has been changed from ten to three years.

Revenue Recognition

Telecommunication services revenue is recognized in the period the customer utilizes the Company's service.

Translation services revenue and revenue from consulting services are recognized using the percentage of completion method, whereby revenue is recorded at the estimated realizable value of work completed to date. Amounts received in advance are recorded as deferred revenue. Estimated losses on contracts are recognized when they become known.

Revenue from packaged software product sales is recognized when such software is shipped and accepted by the customer.

Revenue from and related to contractual software product sales is recognized upon the fulfillment of all significant obligations under the terms of such contracts.

Research and Development Expenditures

Research costs are expensed as incurred. Development costs incurred prior to the establishment of the technological and financial feasibility of a project are expensed as incurred. Software development costs are capitalized when the technological and financial feasibility of a project is established. These costs are subsequently amortized using the straight-line method over the related product's estimated economic life. To date, no development costs have been capitalized.

Income Taxes

The Company accounts for income taxes using the deferral method of income tax allocation. Deferred income taxes result from claiming deductions for income tax purposes in amounts which differ from those charged in the financial statement accounts.

Leases

Leases are classified as capital or operating leases. A lease that transfers substantially all the benefits and risks incidental to ownership is classified as a capital lease. At inception, a capital lease is recorded as if it were an acquisition of an asset and the incurrence of an obligation. Assets recorded as capital leases are amortized on a basis consistent with that of accounting for capital assets.

Loss Per Common Share

Loss per common share is calculated using the weighted average number of common shares outstanding during the respective fiscal years. Fully diluted loss per share is not presented because the effect of the exercising of stock options, warrants and conversion of preferred shares and convertible notes is anti-dilutive.

Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

2. ACQUISITIONS

All acquisitions have been accounted for using the purchase method with results from operations included in these financial statements from the date of acquisition. Acquisitions identified in 2 (b) through 2 (e) relate to discontinued telecommunication operations (Note 9).

a) 1996 Acquisition – Solutions Source Inc.

On June 1, 1996, the Company acquired all the outstanding shares of Solutions Source Inc., an Internet software development and consulting company, in exchange for assuming the net liabilities, giving nominal cash consideration of two dollars and contingent cash consideration of $186,666. The contingent cash consideration is payable dependent upon revenue targets specific to the business of Solutions Source as follows: $62,222 payable upon cumulative $500,000 revenue achievement; $62,222 payable upon cumulative $1,000,000 revenue achievement; $62,222 payable upon cumulative $1,500,000 revenue achievement. The goodwill of $426,266 has been written off and is included in the depreciation and amortization expense of $1,621,694.

Net assets acquired		
Cash	$	21,248
Non-cash working capital		86,245
Capital assets		88,541
Goodwill		426,266
		622,300
Less current liabilities assumed		435,632
	$	186,668

b) 1995 Telecommunication Customer Base Acquisitions

In 1995, the Company expanded its telecommunication services by acquiring the customer base of three private businesses: July 1, 1995, Foneup Services Inc. and Telelink Services Inc.; August 1, 1995, Entra Communications Inc.; November 1, 1995, NetXchange Telecom Inc. The aggregate cost for these acquisitions, all of which have been assigned to Intangible Assets – Customer Accounts, was cash consideration of $2,652,896. The acquisition cost for NetXchange Telecom Inc., originally estimated at $2,305,000 was contingent upon the profitability and cash flow of the acquired customer base, over a 20-month period from the date of acquisition. At December 31, 1995, acquisition costs payable were $2,541,097 of which $1,586,297 was current. In 1996, the required profitability and cash flow were determined to be unattainable resulting in the reduction of the acquisition cost to $99,380. The Intangible Assets – Customer Accounts and Acquisition Costs Payable were similarly reduced.

c) 1994 Acquisition – UTN Do Brasil Consultoria S/C Ltd.

On May 6, 1994, the Company acquired all of the outstanding shares of UTN do Brasil Consultoria s/c Ltd. ("UTN"), a company engaged in providing international telecommunication services for customers in Brazil, in exchange for 1,050,000 common shares at an ascribed value of $3.95 per share, 537,500 Series A warrants and 537,500 Series B warrants. No value has been attached to the warrants for purposes of calculating the purchase price.

Of the 1,050,000 common shares issued on acquisition, 700,000 shares were placed in escrow to be released on the basis of one share for each $11.00 of the consolidated gross revenue generated by UTN and Miami International Gateway, Inc. within 18 months of the acquisition date. All of these shares were released from escrow in 1995.

Net assets acquired		
Cash	$	12,451
Non-cash working capital		524,633
Capital assets		51,861
Customer accounts		3,845,384
		4,434,329
Less current liabilities assumed		221,952
	$	4,212,377

d) 1994 Acquisition – Miami International Gateway, Inc.

On May 6, 1994, the Company acquired all of the outstanding shares of Miami International Gateway, Inc., a company which provides international switched telecommunication services, in exchange for 350,000 common shares at an ascribed value of $3.95 per share plus cash consideration of $339,475.

Net assets acquired		
Cash	$	20,021
Non-cash working capital		416,128
Capital assets		541,505
Other assets		4,085
Customer accounts		1,206,170
		2,187,909
Less current liabilities assumed		411,942
	$	1,775,967

e) 1993 Acquisition – Telpoint International Inc.

On December 16, 1993, the Company acquired all of the outstanding shares of Telpoint International Inc., a company engaged in providing international telecommunication services for customers in Latin America, in exchange for 1,100,000 common shares at an ascribed value of $1.00 per share plus cash consideration of $25,000.

Of the 1,100,000 common shares issued on acquisition, 1,000,000 shares were placed in escrow to be released on the basis of one share for each $1.00 of cash flow generated by Telpoint International Inc. In addition to the purchase price, the vendor received warrants entitling the holder to purchase an additional 400,000 common shares. Effective December 31, 1994, this agreement was amended. The Company renegotiated the consideration with respect to the acquisition of Telpoint International, Inc. which has been reflected by:

- *Cancellation of 1,000,000 common shares held in escrow;*
- *Cancellation of 200,000 warrants at an exercise price of $1.15 per share;*
- *Cancellation of 200,000 warrants at an exercise price of $2.00 per share;*
- *Issuance of 400,000 warrants at an exercise price of $2.05 per share. These warrants were held in escrow and were earned out in 1995 upon attainment of certain performance criteria;*
- *A reduction to share capital and intangible assets of customer accounts of $1,000,000.*

3. CAPITAL ASSETS

	Cost	Accumulated Depreciation	Net Book Value 1996	1995	1994
Land and building *(Note 9)*	$ –	$ –	$ –	$ –	$ 522,525
Telecommunication equipment *(Note 9)*	–	–	–	881,594	753,109
Computer and office equipment	1,026,799	308,899	**717,900**	634,590	216,756
Leasehold improvements	304,501	194,468	**110,033**	18,783	41,144
	$ 1,331,300	$ 503,367	**$ 827,933**	$ 1,534,967	$ 1,533,534

Included in computer and office equipment are assets under capital lease totaling $68,500 (1995 and 1994 – nil) and accumulated depreciation of $31,133 (1995 and 1994 – nil). Future minimum lease payments related to the capital lease obligation over the next two years are as follows: 1997 – $26,252; 1998 – $11,115.

Included in telecommunication equipment for 1995 are assets under capital lease totaling $339,000 and accumulated depreciation of $45,200 (1995 and 1994 – nil). There are no future minimum lease payments related to this capital lease obligation in 1996 as the telecommunication equipment was disposed of subsequent to year-end. (See Note 9.)

4. INTANGIBLE ASSETS

	Cost	Accumulated Depreciation	1996	Net Book Value 1995	1994
Customer accounts *(Note 9)*	$ –	$ –	$ –	$ 5,922,049	$ 4,445,768
License agreements	1,031,134	1,031,134	–	821,741	925,180
Pre-operating expenses	424,420	424,420	–	–	318,405
Goodwill	426,266	426,266	–	–	–
	$ 1,881,820	$ 1,881,820	$ –	$ 6,743,790	$ 5,689,353

5. CONVERTIBLE NOTES PAYABLE

On May 15, 1994, the Company received $1,500,000 through the issuance of unsecured convertible notes. The notes, which bear interest at 8% per annum, were due on May 15, 1995 and were convertible at the option of the holder into common shares within one year at prices of $3.75 per share for 367,876 shares and $4.40 per share for 27,386 shares.

In 1995, holders of $867,500 of these notes agreed to extend the conversion and payment dates of the notes to May 15, 1996 at an interest rate of 10%. Subsequent to the extension agreement, $350,000 and $802,500 of these notes were converted to common shares in 1996 and 1995 respectively. In 1995, the Company repaid $347,500 of these notes. Interest on convertible notes in the year was $11,600 (1995 – $83,000; 1994 – $68,750).

6. LONG-TERM DEBT

	1996	1995	1994
9.5% first mortgage due July 1, 1995. Secured by specific land and building, a corporate guarantee, assignment of rents and an assignment of insurance coverage	$ –	$ –	$ 465,711
Term bank loan, due on demand, with interest at prime plus 1.75%	–	–	297,248
Business improvement loan, due on demand with interest at prime	–	–	60,682
Finance contracts at varying rates of interest, from 7.90% to 12.75% or prime plus 1.5% to prime plus 3.75%. Specific equipment pledged as collateral	–	–	167,450
	–	–	991,091
Less current portion *(Note 9)*	–	–	991,091
	$ –	$ –	$ –

The following had been provided as collateral for the term bank loan:

i) general assignment of book debts and lease contracts;

ii) fire insurance policy;

iii) demand debenture in the amount of $2,000,000;

iv) general security agreement.

Interest on long-term debt in the year was nil (1995 – $60,000; 1994 – $86,625).

Line of Credit

During the year, the Company was issued a US$1,000,000 Line of Credit with Citibank, F.S.B. on behalf of Miami International Gateway, Inc. Interest is calculated at the fluctuating rate of one percent over the Citibank base rate and payable monthly. The line of credit is secured by the U.S. dollar cash account. At December 31, 1996, the Line of Credit was fully utilized (See Note 9). Subsequent to year-end, the Line of Credit was fully repaid by cash on hand prior to the disposal of the telecommunication operations.

7. SHARE CAPITAL

	Number of Shares	Amount
Authorized		
Unlimited number of common shares		
Unlimited number Class A, 9% convertible, preferred shares		
Balance, December 31, 1993	15,924,000	$ 4,223,888
Issued on exercise of stock options	699,000	99,900
Issued on exercise of warrants	900,000	225,000
Issued on acquisition of subsidiaries *(Note 2)*	1,400,000	5,530,000
Issued on settlement of management agreement *(Note 10)*	61,500	105,165
Issued on conversion of preferred shares	800,000	200,000
Cancellation of shares issued on acquisition of subsidiary *(Note 2)*	(1,000,000)	(1,000,000)
Balance, December 31, 1994	18,784,500	9,383,953
Issued on exercise of stock options	625,000	1,356,250
Issued on exercise of warrants	937,317	5,052,894
Issued on conversion of notes payable *(Note 5)*	209,250	802,500
Issued under private placements	1,333,334	3,800,000
Balance, December 31, 1995	21,889,401	20,395,597
Issued on exercise of stock options	673,000	2,430,000
Issued on exercise of warrants	1,476,667	7,100,002
Issued on conversion of notes payable *(Note 5)*	93,333	350,000
Issued under private placements	1,592,900	10,657,,434
Balance, December 31, 1996	25,725,301	$ 40,933,033
Class A preferred shares:		
Balance, December 31, 1993	200,000	$ 200,000
Converted to common shares	(200,000)	(200,000)
Balance, December 31, 1994, 1995 and 1996	–	$ –

Share Purchase Warrants

At December 31, 1996, the following common share purchase warrants, issued in connection with private placements, were outstanding:

Warrants	Common Shares	Conversion Price Per Common Share	Expiry Date
796,450	796,450	US$ 7.00	April 26, 1997
334,334	334,334	CDN$ 4.50	December 15, 1997
1,130,784	1,130,784		

Stock Options

At December 31, 1996, the Company maintained a Stock Option Plan for all directors, officers, employees and consultants of the Company.

Under the terms of the Stock Option Plan, options may be granted at the discretion of the Board of Directors. The option price equals the closing price of the Company's shares on the day preceding the date of grant. The options are not assignable, vest at the discretion of the Board of Directors, and expire, at maximum, after the tenth anniversary of the date of grant.

The purchase price of common shares under options outstanding as at December 31, 1996, range from $0.15 to $10.25. The Company has reserved 824,400 shares for possible future allocations under the Stock Option Plan.

Changes in the number of common shares under option during the three years ended December 31, 1996, are summarized as follows:

	1996	1995	1994
Outstanding, beginning of year	**2,603,000**	2,025,000	699,000
Granted	**2,076,600**	1,278,000	2,025,000
Cancelled	**(188,000)**	(75,000)	–
Exercised	**(673,000)**	(625,000)	(699,000)
Outstanding, end of year	**3,818,600**	2,603,000	2,025,000

Escrowed Shares

Pursuant to policies of the Alberta Securities Commission and the Alberta Stock Exchange, certain issued common shares are held in escrow. At December 31, 1996, 5,000,000 (1995 – 7,135,800; 1994 – 5,700,000) common shares were held in escrow.

The 5,000,000 common shares have been held in escrow since November 22, 1993 and are non-voting until certain performance levels are reached relating to cash flow derived from certain license agreements. These shares are released from escrow on the basis of one share for every $0.10 in cash flow from the sale of products that use the systems designated by the license agreements.

Performance Option

The Company had issued 225,000 options to a business development consultant to purchase common shares at an exercise price of $1.95 per share, subject to certain performance conditions. These performance options expired, unexercised, on February 28, 1997.

8. INCOME TAXES

Substantially all of the Company's activities are carried out through operating subsidiaries in a number of countries. The income tax effect of operations depends on the tax legislation in each country and operating results of each subsidiary and the parent company.

The provision for income taxes reflects an effective tax rate which differs from the corporate tax rate for the following reasons:

	1996	1995	1994
Combined basic Canadian federal and provincial income tax rate	**44%**	44%	44%
Expected combined Canadian federal and provincial tax recovery based on above rates	**$ 4,162,000**	$ 2,053,000	$ 914,000
Differences in foreign statutory tax rates	**(1,675,000)**	(715,000)	(441,000)
Permanent differences	**658,000**	(246,000)	–
Unrecognized recoveries on losses	**(3,145,000)**	(1,092,000)	(473,000)
Benefit of previously unrecognized losses recognized in the year	**–**	–	257,205
Consolidated income tax recovery	**$ –**	$	$ 257,205

At December 31, 1996, the Company had losses for income tax purposes available, excluding Miami International Gateway, Inc., to reduce future taxable income in Canada and various foreign jurisdictions as follows:

	Canada	Foreign	Total
Losses for income tax purposes	$ 5,759,000	$ 10,211,000	$ 15,970,000

Under current Canadian and foreign income tax legislation, the losses do not expire before 1999.

9. DISCONTINUED OPERATIONS

a) Discontinued Telecommunication Operations

A formal plan of disposal for the telecommunication operations was approved by the Board of Directors of the Company in December 1996. Subsequent to year-end, the Company disposed of its telecommunication operations as it sold all of the shares of its wholly-owned subsidiary, Miami International Gateway, Inc. ("MIG"), to Custom Technology Communication, a private Florida based telecommunication company (the "Purchaser") pursuant to a Sale and Purchase Agreement dated March 7, 1997. The principal of the Purchaser was an officer of the Company. Effective as of the closing, this officer is no longer associated with Multi-Corp Inc. or any of its subsidiaries.

The Purchaser acquired all of the outstanding shares of MIG for consideration of US$1.5 million and contingent cash consideration of US$1.0 million. The US$1.5 million is to be paid pursuant to a four (4) year, seven percent (7.0%) per annum Promissory Note. The Purchaser may discharge its obligations under the Promissory Note by paying US$150,000 within ninety (90) days or by paying US$200,000 within 180 days, or by paying US$250,000 within 365 days. There is no assurance to the Company that the Purchaser will be able to pay the US$1.5 million cash portion of the purchase price, and there is also no assurance that any monies will be received under the provision for contingent cash consideration of US$1.0 million. The Company will account for consideration only as cash is received. The contingent consider-

ation of US$1.0 million is payable on March 7, 1999, if the telecommunication business acquired by the Purchaser achieves cumulative gross revenues of US$24.0 million for the 18 month period March 7, 1997 through September 7, 1998.

The net loss in 1996 from the disposal of the telecommunication operations was $2,927,631 (net of nil tax) which includes the loss from operations from January 1, 1997 to March 7, 1997 of $1,832,303.

	1996	1995	1994
Net loss from discontinued telecommunication operations for the year ended December 31 (net of nil tax)	**$ 8,495,451**	$ 3,908,041	$ 1,766,696
Telecommunication operations revenue	**$ 15,638,601**	$ 9,442,864	$ 4,256,741

The following net assets and liabilities as at December 31, 1996 relate to discontinued telecommunication operations:

Net Assets	
Cash	$ 86,655
Non-cash working capital	1,966,444
Capital assets	1,506,045
Customer accounts	107,582
	$ 3,666,726
Net Liabilities	
Bank indebtedness	$ 1,371,300
Accounts payable and accrued liabilities	3,670,398
	$ 5,041,698

b) Discontinued Rental Operations

Operations of United Industrial Equipment Rentals Ltd. were discontinued in 1994.

In 1996, proceeds of $500,000 were received on the disposal of net assets (land and buildings) of discontinued rental operations, which were presented as Assets held for sale of $349,298 at December 31, 1995, and a gain of $130,635 (net of taxes of nil) was realized. In 1995, an operating loss of $170,842 (net of tax recovery of $102,000) was incurred on the wind-up of operations and proceeds of $210,057 were received on disposal of net assets (land and building). In 1994, proceeds of $2,447,325 were received on the sale of the majority of assets, resulting in a gain of $245,667 (net of taxes of $195,703). The operating loss in 1994 was $6,901 (net of tax recovery of $5,498). At December 31, 1994, net assets (land and buildings) of discontinued rental operations of $522,525 remained to be disposed. Revenues from discontinued rental operations were $3,319,763 in 1994.

10. RELATED PARTY TRANSACTIONS

The following table outlines the Company's related party transactions:

	1996	1995	1994
Management fees paid to a company owned by a director	**$ 311,655**	$ 142,800	$ 100,500
Legal services provided by a law firm in which a director is a partner	**$ 88,446**	$ 73,200	$ 97,465
License fees to two companies owned by shareholders (1996); director and consultant/shareholder (1995)	**$ 483,980**	$ 475,000	–
Consulting services provided by two companies in which a shareholder and a director are principals (1996); a shareholder is a principal (1995);	**$ 145,726**	$ 197,140	
Interest paid to two shareholders/ directors related to shareholder loans	**–**	$ 46,244	
Interest to two companies owned by a director and a consultant/shareholder related to license fees	**–**	$ 21,068	–
Settlement fees of a management agreement cancelled with a company owned by a director	**–**		$ 195,952

These transactions are in the normal course of operations and are measured at an exchange value which approximates the arms length equivalent as with any third party. The 1994 settlement fees of $195,952 were paid through cash, shares and office equipment.

At the year-end, the amounts due to (from) related parties are as follows:

	1996	1995	1994
Due to law firm in which a director is a partner	**$ 22,006**	$ 9,300	$ 46,907
License fees due to two companies owned by shareholders (1996); director and consultant/shareholder (1995 and 1994)	**$ 483,980**	$ 375,200	$ 280,361
Due from two officers (1996); to company in which consultant/shareholder is principal (1995);	**$ (124,209)**	$ 72,800	
Due to two companies in which two directors are principals	**$ 34,704**	–	
Shareholders/directors loan	**–**	–	$ 720,229
Interest due on shareholders/directors loan	**–**		$ 21,422

11. COMMITMENTS

The Company rents premises and equipment under operating leases which expire at various dates up to September 2000. Annual rentals under these leases for each of the next four years are as follows:

1997	$ 1,117,884
1998	$ 331,767
1999	$ 153,168
2000	$ 114,876

Effective November 12, 1993, the Company entered into three separate licensing agreements relating to the worldwide rights of certain Chinese character-based software technologies. Annual fees for these license agreements are as follows:

1997	US$ 825,000
1998 through 2018	US$ 1,125,000

The terms of the agreements can be extended 25 years on the same terms and conditions if the Company has not been in default in the initial term of the agreements.

12. CONTINGENCIES

The Company has been named as a defendant in two legal actions arising in the normal course of its Chinese character-based technology business. It is the opinion of management that adequate provision has been made in these financial statements for such claims and that final determination will not materially affect the financial position or operating results of the Company.

The Company has been named as a defendant in a lawsuit with respect to the disposal of assets of discontinued rental operations, a lawsuit with respect to the acquisition of certain customer accounts related to discontinued telecommunication operations, and a lawsuit with respect to the disposal of discontinued telecommunication operations. It is the opinion of management that these lawsuits will not be successful and the final determination of such claims will not materially affect the financial position or operating results of the Company.

13. SEGMENTED INFORMATION

The Company operates in one distinct industry with two reportable geographic segments:

		Revenue				Operating	Identifiable
		Translation	Software	Consulting	Total	Loss	Assets
1996	North America	**$ 12,543**	**$ 5,714**	**$ 273,541**	**$ 291,798**	**$ 5,310,287**	**$ 9,683,501**
	Asia Pacific	**324,820**	**1,067,809**	**–**	**1,392,629**	**4,476,433**	**1,603,903**
	TOTAL	**$ 337,363**	**$ 1,073,523**	**$ 273,541**	**$ 1,684,427**	**$ 9,786,720**	**$ 11,287,404**
1995	North America	$ 9,531	$ 62,160	$ –	$ 71,691	$ 2,679,646	$ 1,784,749
	Asia Pacific	286,158	220,455	–	506,613	1,949,652	1,356,884
	TOTAL	$ 295,689	$ 282,615	$ –	$ 578,304	$ 4,629,298	$ 3,141,633
1994	North America	$ –	$ 12,746	$ –	$ 12,746	$ 1,421,409	$ 2,761,148
	Asia Pacific	2,195	57,223	–	59,418	644,962	1,296,002
	TOTAL	$ 2,195	$ 69,969	$ –	$ 72,164	$ 2,066,371	$ 4,057,150

During the years ended December 31, 1994 and 1995, the Company operated in two distinct industry segments, Chinese character-based technologies (software sales and translation services) and telecommunication services. Telecommunication services were discontinued effective December 31, 1996 and disposed of subsequent to year-end (Note 9). Canadian equipment rentals was discontinued in 1994 (Note 9).

14. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements, prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), conform with those generally accepted in the United States ("U.S. GAAP"), in all material respects, except:

a) Consolidated Statement of Loss and Deficit

	1996	1995	1994
Loss before discontinued operations	**$ 9,459,665**	$ 4,666,694	$ 1,819,242
Item having the effect of increasing the net loss:			
Deferred pre-operating expenses	**–**	–	318,405
Loss before discontinued operations pursuant to U.S. GAAP	**$ 9,459,665**	$ 4,666,694	$ 2,137,647
Net loss pursuant to U.S. GAAP	**$ 20,752,112**	$ 8,745,577	$ 3,665,577
Loss per share before discontinued operations pursuant to U.S. GAAP	**$ 0.494**	$ 0.310	$ 0.253
Loss per share pursuant to U.S. GAAP	**$ 1.083**	$ 0.581	$ 0.277

Pursuant to Canadian GAAP, common shares held in escrow which are subject to future performance level criteria are included as outstanding shares in the calculation of loss per share. U.S. GAAP requires that these shares (5,000,000 in 1996, 1995 and 1994), be excluded from the calculation of primary loss per share.

Pursuant to Canadian GAAP, it is acceptable to defer certain expenses in development stage companies. U.S. GAAP requires that companies in the development stage follow U.S. GAAP applicable to established operating enterprises.

b) Consolidated Balance Sheet

As a consequence of the increased loss for 1994 outlined in (a) above, at December 31, 1994 the deficit of the Company would be stated as $4,170,171, and the intangible assets stated as $5,370,948, under U.S. GAAP.

c) Consolidated Statement of Changes in Cash Position "SCCP"

Pursuant to Canadian GAAP, SCCP requires disclosure of non-cash transactions. The reduction of debt through the conversion of convertible notes and the subsequent issuance of common shares for $350,000 and $802,500 in 1996 and 1995 respectively were non-cash transactions. U.S. GAAP requires that non-cash transactions be excluded from SCCP disclosure. The exclusion of the non-cash transactions has no net effect and the total financing activities for 1996 and 1995 reportable under U.S. and Canadian GAAP is unchanged from the amount presented on the SCCP.

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Lynn D. Peters †
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† *Member of the Audit Committee*

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Chairman of the Board and Chief Executive Officer

Nairn L. Nerland
President and Chief Operating Officer, Zi Corporation

Derrick R. Armstrong
Corporate Secretary

Andrew Barber
Managing Director – Asia

Robert A. Blackshaw
Executive Vice President, Business Development

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Senior Vice President, Sales & Special Projects

Wally Ritchie
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Supplemental Information

To receive a copy of Zi Corporation's detailed Corporate Profile or other investor information, please contact Investor Relations at our Calgary Office (403) 233-8875 or e-mail: investor@zicorp.com

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